

Milton friedman research paper examples

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Milton Friedman Background

Milton Friedman was an American economist, author and a statistician born on 31st July 1912 Brooklyn, New York. Milton Friedman attended and graduated from Rahway High School in 1928. He graduated with a Masters in mathematics from Brown University and masters in Economics from the University of Chicago. He taught at the University of Chicago where he later became the leader of the University. Milton made major contributions to the economics when he was the leader. He is known for major contributions and research on the consumption analysis, theory and history of money and the concept of stabilization policy. He has received various awards and also Nobel Memorial Prize in Economics Sciences while he was a leader in the University of Chicago. He was considered by other economist as the most influential economist in the latter half of the 20th century.

In the 1950s, he challenged the Keynesian government policies and described his own approach in the 1960s known as the monetarism. Monetarism was a school of thought which emphasized the role of the government in regulating the money which was in circulation, in the country. He tried to explain how government could increase the employment rate by increasing aggregate demand which imposed a risk of causing inflation. Milton Friedman was also the economic adviser to Ronald Reagan who was the then U. S president. He advocated for a free market economic system which should have minimal intervention, monetary policies and fiscal policies such as taxation in 1980s.

Milton Friedman has written many scholarly articles, economic books, papers, magazines and conducted lecturers which cover a wide range of

topics in microeconomics and macroeconomics. His publications have made major international influences all over the world. He passed away on 16th November 2006.

Milton Friedman School of Thought

Milton Friedman was in the Chicago Economics school of thought. He was among other economist who include; Karl Brunner, Anna Schwartz, Clark Warburton and David Laidler. The economists are considered as the monetarist economist who believed in the importance of money, in the macroeconomic issue analysis. They had a common belief that money was supreme in the analysis of the issues regarding macroeconomics. Friedman had also introduced the monetarism school of thought where he explained the importance of controlling the money in circulation, in the country by the government. From the monetarism school of thought, he argued that the national output is mainly influenced by money supply variations in the short run but in the long run the price level. The growth rate of the money supply helped meet the objectives of the monetary policy. He explained in his book, A Monetary History of the United States, the roles of central bank in maintaining the equilibrium of demand and supply for money in the economy.

Theories created and advanced by Milton Friedman

Milton Friedman made various contributions towards economic microeconomics and macroeconomics. He came up with two main theories namely the quantity theory of money, the consumption function theory and the expected-augmented Phillips Curve.

The Quantity theory of money

The quantity theory of money is based on the Fisher Equation of exchange from the classical economists which equates the amount of money in circulation (M) and the velocity of the money circulation (V) to the average price level (P) and the number of transactions occurring (T). The equation can be written as $MV = PT$.

According to the classical economists, the velocity of money remains stable as the number of transactions move towards full employment. Friedman improved on this theory and argued that velocity of money and the number of transactions are determined independently in the long run, and this led to the conclusion of the direct relationship between the amount of money in circulation and the price level. As money in circulation increases, the price level also increases. Inflation was brought about by the rate of growth of the money supply increasing than the rate output growth. According to Friedman, inflation created a negative impact to the economy. Some of the effects he highlighted include; low level of investment as a result of uncertainty created by inflation and destruction of international competition with rival companies caused by the high price level of the products as compared to the competitor price levels.

Expectations-Augmented Phillips Curve.

The Phillips curve shows the relationship between the level of unemployment and the inflation rate. In the 1970s, it became impossible to explain why the unemployment level and the inflation rate was increasing at the same time. The Phillips Curve explanation was that the two were not supposed to move together. Stagflation was the term used to explain the increase of both

unemployment and inflation at the same time. Due to this problem of explaining the reasons behind the increase, Friedman came up with the role of expectations in the Phillips Curve to explain why stagflation was occurring. It is because of this that the name expectations augmented Phillips Curve. According to Friedman, there existed different Phillips Curve depending on the expected level of inflation. He argued that if individuals had expectations that inflation will occur, then they will expect an increase in the wage. In this theory, Friedman assumes that there is no money illusion among the people. If there was an anticipation of inflation, then people will account for it. In this theory, the price level is assumed to be a straight line along the vertical axis in the long run.

Theory of Consumption Function

Milton Friedman challenged the Keynesian consumption function. The Keynesian Consumption function had a variable in the consumption function as the after tax income. He came up with the Permanent Income Hypothesis which he argued that the current consumers take into account the price increases, future taxes and salary increases. He argued that the people's consumption is based on the total income they expect to receive in the future as opposed to Keynesian who supposed that consumption is based on the after tax income only. For instance, a student will tend to consume more in the final year of college in anticipation of the future salary to be received upon being employed.

Friedman Milton major contributions to the school of economics

In the quantity theory of money, Friedman introduced the concept of interest rate to determine the value of output. Alongside Anna Schwartz, they wrote a book by the name A Monetary History of the United States (1963) which explained the crucial roles of the money supply in the United States. They concluded that economic fluctuations are as a result of fluctuations in the money supply. He also showed that consumption and output are determined by government spending and money supply in the investment sector. This was carried out by Friedman and David Meiselman. The conclusion was that in the long run price level is affected by changes in the money supply while, in the short run, the changes in the money supply affects the output.

Milton Friedman also contributed to the school of economics through providing a link between the money supply and the inflation rate. According to this contribution, inflation rate can be regulated by controlling the amount of money in circulation, in the economy, by the central bank. He was relating his argument to the time inflation, which had resulted from an increase in the price of oil and wage.

Milton Friedman also contributed significantly to the consumption function as discussed earlier. He came up with the permanent income hypothesis theory which argues that rational consumers spend only a proportionate of the income they expect to receive in the future. He explained that consumers would save any money they receive as a windfall income. The argument was meant to counter the Keynesian approach which assumed that consumers spend only the after tax income.

Another major contribution was that he explained that the level of

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unemployment in the long run would be determined by the frictions, fluctuations and imperfections which may be evident in the labor market. The contributions were as a result of Friedmans improvements on the Phillips Curve which had been proposed by the classical economist. Finally, the Friedman major contribution to the economics is the role of government in the economy. He concluded that government should have a minimal intervention in the economy, and he also discouraged the use of fiscal policy measures such as taxation in the demand management. He explained this using the Great Depression (Contraction) example which he said was accelerated by the reduction of the money supply which was facilitated by the federal reserve policies, which were misleading.

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